Saskatchewan
Finance

Annual Report
2004-2005

Saskatchewan Pension Annuity Fund

Saskatchewan Centennial 2005

105-06094/

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Saskatchewan
Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

Dear Madam:

Letter of Transmittal

I have the honour to transmit herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2005.

I have the honour to be, Madam,

Your obedient servant,

Harry Van Mulligen
Minister in Charge
Saskatchewan Pension Annuity Fund

Saskatchewan
Public Employees
Benefits Agency

The Honourable Harry Van Mulligen
Minister in Charge
Public Employees Pension Plan
Regina, Saskatchewan

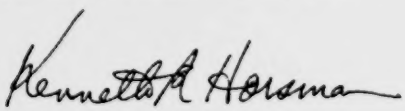
Sir:

Letter of Transmittal

On behalf of the Pension Board of the Public Employees Pension Plan, I have the honour to present herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2005.

Respectfully submitted,

Pension Board
Saskatchewan Pension Annuity Fund



Kenneth R. Horsman
Board Chair

Saskatchewan Pension Annuity Fund

Introduction

The Saskatchewan Pension Annuity Fund (SPAF) was created for members of the Public Employees Pension Plan who want to purchase an annuity as their source of retirement income. Members of the Public Employees Pension Plan are able to purchase annuities from the SPAF upon retirement. The *Saskatchewan Pension Annuity Fund Act* governs SPAF.

Public Employees Pension Board (Pension Board)

Board Chair
Kenneth R. Horsman

Representing Employers
Grant Ring
Saskatchewan Power

Denise Macza
Saskatchewan Finance

Dennis Karakochuk
Saskatchewan Crop Insurance Corporation

William (Bill) Marr
Saskatchewan Property Management Corporation

Representing Employees
Patrick Field
Communications Energy and Paperworks Union (CEP)

Kirby Sanden
International Brotherhood of Electrical Workers (IBEW)

Dan MacKay
Saskatchewan Government Employees' Union (SGEU)

Michael K. Friebe
Canadian Union of Public Employees Local 600

Effective April 1, 2005, The Saskatchewan Pension Annuity Fund Board was established to administer the Fund.

Investment of Funds

The Pension Board is responsible for holding in trust and investing the monies in the Fund. The Pension Board has retained Greystone Capital Management Inc. as its investment manager.

Greystone Capital Management Inc. continues to manage an immunized bond portfolio.

The investment manager makes the day-to-day decision of whether to buy or sell specific investments in order to achieve the long term investment performance objectives set by the Board. It is these long term investment performance objectives that the Pension Board uses to assess the performance of the investment managers.

The investment objectives are:

- to structure the investment portfolio so that the Annuity Fund's net assets are immune to changes in the level of interest rates;
- to provide sufficient liquidity to ensure payment to retired members when due; and
- to ensure long-run solvency.

To achieve the above objectives, the assets of the Fund should be invested so that:

- the duration of the investment portfolio is matched with the duration of the liabilities on an ongoing basis. The matching should fall within a band of -.5 to +.5 years of the duration target;
- the portfolio includes sufficient short term investments to meet liquidity needs; and
- the present value of the asset cash flow stream exceeds the present value of expected liability payments.

The Pension Board has retained Royal Trust as the custodian of the Fund. The custodian is responsible for custody of all financial assets of the Fund (in the name of the Saskatchewan Pension Annuity Fund). The custodian settles all investment transactions. The custodian also

ensures that investment income (ie. dividends, interest) is collected and provides financial statements for all investment transactions.

The Pension Board engages the services of an asset consultant to provide advice on the overall management of the Fund's investments and on the measurement of the Fund's performance. James P. Marshall, Inc. provides this service to the Pension Board.

Annuities

The Saskatchewan Pension Annuity Fund paid a total of $11,913,454 in annuities to 1,969 members, or spouses of members, from the Public Employees Pension Plan and Members of the Legislative Assembly Superannuation Plan during the 2004/2005 fiscal year.

Effective September 1, 2002 the Members of the Legislative Assembly Superannuation Plan was disestablished and members from this Plan became members of the Public Employees Pension Plan.

Administration of the Fund

The Pension Board retains the Public Employees Benefits Agency, Saskatchewan Finance to provide the day-to-day administration of the Fund.

The annual operating expenditures associated with the Fund's administration are paid to the Public Employees Benefits Agency Revolving Fund and are charged to the Saskatchewan Pension Annuity Fund.

MANAGEMENT'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

The Public Employees Pension Plan Pension Board consists of eight appointments made by the Lieutenant Governor in Council. The Pension Board is comprised of a Chairman selected by the other Board Members, four members representing the employees and four members representing the employers. The Pension Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements, which follow have been prepared by management in conformity with accounting principles generally accepted in Canada and have been approved by the Pension Board. Management uses internal controls and exercises its best judgement in order that the financial statements reflect fairly the financial position of the Fund.

The present value of annuities is determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events, which require approval by management.

The financial statements have been audited by the Provincial Auditor whose report follows.

Brian Smith
Executive Director
Public Employees Benefits Agency

A. Mackrill

Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

K morgan

Kathy Morgan
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
May 31, 2005

ACTUARIES' OPINION

Eckler Partners Ltd. was retained by the Public Employees Benefits Agency (PEBA) to perform actuarial valuations of the accumulated provision for annuities payable from the Saskatchewan Pension Annuity Fund (Fund) on an accounting basis as at March 31, 2004 and March 31, 2005.

The actuarial valuations of the Fund's accumulated provision for annuities payable were based on:

- Membership and asset data provided by the Public Employees Benefits Agency as at March 31, 2004 and March 31, 2005;
- Assumptions about future demographic events which were developed by management and Eckler Partners Ltd. and are considered as management's best estimate of these events; and
- A discount rate chosen to be consistent with the asset values reported in the Fund's financial statements.

While the actuarial assumptions used to estimate the accumulated provision for annuities payable for the Fund's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Fund's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Fund.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuation has been performed in accordance with accepted actuarial practice.

John Corp

John Corp, FIA, FCIA
Eckler Partners Ltd.

May 31, 2005

SASKATCHEWAN PENSION ANNUITY FUND

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2005

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Saskatchewan Pension Annuity Fund as at March 31, 2005 and the statements of operations and net assets (deficit), and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
May 31, 2005

Fred Wendel, CMA, CA
Provincial Auditor

SASKATCHEWAN PENSION ANNUITY FUND
STATEMENT OF FINANCIAL POSITION

STATEMENT 1

AS AT MARCH 31

	2005	2004
ASSETS		
Investments (Note 3)		
Short-term	$ 1,312,392	$ 6,527,429
Bonds and debentures	136,950,797	117,816,886
	138,263,189	124,344,315
Receivables		
Accrued investment income	2,076,557	1,833,146
Transfer from designated plans	3,211	122,860
	2,079,768	1,956,006
Due from General Revenue Fund (Note 4 and Statement 3)	10,969	181,354
Total Assets	$140,353,926	$126,481,675
LIABILITIES AND NET ASSETS		
Liabilities		
Bank indebtedness (Statement 3)	$ 2,041	$ 288
Administration expenses payable	36,353	42,267
Accumulated provision for annuities payable (Note 5)	140,923,000	126,420,000
Total Liabilities	140,961,394	126,462,555
Net (Deficit) Assets (Statement 2)	(607,468)	19,120
Total Liabilities and Net Assets	$140,353,926	$126,481,675

(See accompanying notes to the financial statements)

SASKATCHEWAN PENSION ANNUITY FUND
STATEMENT OF OPERATIONS AND NET ASSETS (DEFICIT)

STATEMENT 2

YEAR ENDED MARCH 31

	2005	2004
REVENUES		
Transfers from designated plans	$17,233,700	$12,038,465
Investment income:		
Interest	6,924,029	6,559,103
Net gains on sale of bonds	358,032	35,121
Net amortization of bond premiums and discounts	1,522,464	1,552,304
Total Revenue	26,038,225	20,184,993
EXPENSES		
Change in accumulated provision for annuities payable (Note 5)	14,503,000	9,279,000
Annuities	11,913,454	10,832,701
Administration (Note 7)	248,359	197,578
Total Expenses	26,664,813	20,309,279
Net Loss for the year	(626,588)	(124,286)
Net Assets, beginning of year	19,120	143,406
Net (Deficit) Assets, end of year – to Statement 1	$ (607,468)	$ 19,120

(See accompanying notes to the financial statements)

SASKATCHEWAN PENSION ANNUITY FUND
STATEMENT OF CASH FLOWS

STATEMENT 3

YEAR ENDED MARCH 31

	2005	2004
Cash flows from (used in) operating activities:		
Transfers from designated plans	$ 17,353,347	$ 12,139,676
Interest income received	6,680,618	6,487,092
Annuities paid	(11,913,454)	(10,832,701)
Administration expenses paid	(254,273)	(212,239)
	11,866,238	7,581,828
Cash flows from (used in) investing activities:		
Purchase of investments	(79,794,447)	(104,359,607)
Proceeds from disposal of investments	67,756,071	96,768,042
	(12,038,376)	(7,591,565)
Net decrease in cash and cash equivalents	(172,138)	(9,737)
Cash and cash equivalents, beginning of year	181,066	190,803
Cash and cash equivalents, end of year	$ 8,928	$ 181,066
Cash and cash equivalents are comprised of:		
Due from General Revenue Fund (Statement 1)	$ 10,969	$ 181,354
Bank indebtedness (Statement 1)	(2,041)	(288)
Cash and cash equivalents	$ 8,928	$ 181,066

(See accompanying notes to the financial statements)

SASKATCHEWAN PENSION ANNUITY FUND
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2005

1. Description of Plan

The Public Employees Pension Board administered the Saskatchewan Pension Annuity Fund (Fund).

Order in Council 867/04, dated December 21, 2004, transferred responsibility of the Fund to the Saskatchewan Pension Annuity Fund Board, effective April 1, 2005. The day-to-day administration is provided by the Public Employees Benefits Agency (PEBA). The Fund operates pursuant to Section 5 of *The Saskatchewan Pension Annuity Fund Act* (Act).

The purpose of the Fund is to provide annuities to members of designated pension plans. Designated pension plans include the Public Employees Pension Plan. Members of a designated plan may, upon retirement, elect to receive an annuity from the Fund, as an alternative to purchasing an annuity from a private company that issues annuities. Those electing to receive an annuity from the Fund transfer their accumulated contributions and investment income from their designated plan to the Fund at the time of retirement.

Subsection 5(7) of the Act requires any amount by which the liabilities of the Annuity Fund exceed the assets of the Fund to be a charge on, and a payable out of, the General Revenue Fund. As the annuities payable are long-term liabilities, and management does not expect to require funding to meet their current obligations, the Fund has not recorded any amount as a receivable from the General Revenue Fund.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The Fund follows accounting policies recommended for organizations that issue annuities. The following accounting policies are considered significant:

a) **Investments**

Short-term investments are recorded at cost. Bonds and debentures are recorded at amortized cost. Premiums and discounts on the acquisition of bonds and debentures are amortized to earnings over the term of the security.

b) **Accumulated Provision for Annuities Payable**

The accumulated provision for annuities payable represents the present value of the annuities underwritten and is determined pursuant to an annual actuarial valuation.

Any resulting change in the accumulated provision for annuities payable pursuant to the valuation is recognized in the statement of operations and net assets (deficit).

3. Investments

The investment objectives are to structure the investment portfolio to limit the effect on the Fund arising from changes in the level of interest rates, provide sufficient liquidity for payments to annuitants when due, and ensure long-term solvency.

The Fund holds investments in long-term bonds with terms matching the remaining life expectancies of annuitants.

The projected cash inflows over the life of the Fund are expected to meet the cash outflows.

a) **Interest Rate Risk**

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Fund's assets and liabilities. Interest rate risk is managed by investing in fixed income investments that provide cash flows that match payments to annuitants.

The value of the Fund's assets is affected by changes in nominal interest rates.

b) **Credit Risk**

Credit risk arises from the potential for issuers of securities to default on their contractual obligations to the Fund. The Pension Board limits the credit risk of the Fund by dealing with issuers that are considered to be high quality. The credit ratings used to describe the securities below are based on the Dominion Bond Rating Service and/or the Standard and Poor's and/or Moody's Investors Services.

Short-term Investments

Short-term investments are comprised of T-Bills and notes with effective rates of 2.50% (2004 - 2.00% to 2.30%) and an average remaining term to maturity of 28 days (2004 - 35 days). The Fund's investment policy states that investments must meet a minimum investment standard of "R1" as rated by a recognized credit rating service.

Bonds and Debentures

The Fund's investment policy states that government bonds must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15% of the par value of the bond portfolio may be invested in BBB rated bonds. At March 31, 2005, the Fund held 0.19% (2004 – 0.00%) of its portfolio in BBB bonds.

No more than 10% of the market value of the bond portfolio may be invested in corporate bonds. At March 31, 2005, the Fund held 2.89% (2004 – 2.90%) of the market value of bonds and debentures in corporate bonds. The minimum credit rating for corporate bonds is "A" or equivalent as rated by a recognized credit rating service.

(in thousands of dollars)

	2005						2004		
	Market Value								
Years to Maturity	Federal	Provincial	Corporate	Total	Yield to Maturity at Market	Coupon Rate	Total Market Value	Yield to Maturity at Market	Coupon Rate
Under 1	1,823	82	-	1,905	8.4	8.00-8.75	558	4.3	0.00-9.63
1 - 5	12,912	7,009	-	19,921	3.0	0.00-10.00	18,345	3.5	0.00-8.75
5 – 10	11,832	18,467	3,611	33,910	5.5	0.00-10.60	30,704	5.2	0.00-10.60
Over 10	29,665	66,147	795	96,607	4.8	0.00-11.25	82,264	4.9	0.00-11.25
Market Value	56,232	91,705	4,406	152,343			131,871		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The Fund's investments are comprised of:

	(in thousands of dollars)			
	2005		2004	
Bonds and Debentures	Cost	Market Value	Cost	Market Value
Province of Saskatchewan	$ 3,868	$ 3,812	$ 4,118	$ 4,161
Other Provincial	98,792	87,894	86,591	73,824
Corporate	3,189	4,406	3,189	3,826
Canada	51,077	56,231	46,473	50,060
Total bonds and debentures at par value	156,926	152,343	140,371	131,871
Net unamortized discounts	(19,975)	-	(22,554)	-
Total bonds and debentures amortized cost	136,951	152,343	117,817	131,871
Short-term investments	1,312	1,312	6,527	6,527
Total investments	$138,263	$153,655	$124,344	$138,398

Investments are recorded at cost because investments are matched with liabilities to minimize interest rate and reinvestment risk. Fair value approximates the market value of investments.

4. Due from General Revenue Fund

The Fund's bank accounts are included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Fund's bank accounts using the Government's thirty day borrowing rate and the Fund's bank account balance. The Government's average thirty day borrowing rate for 2005 is 2.19% (2004 - 2.79%).

5. Accumulated Provision for Annuities Payable

The accumulated provision for annuities payable is the actuarial present value of the expected annuity benefit obligations to annuitants. An actuarial valuation of the Fund was performed as at March 31, 2005 by Eckler Partners Ltd using a discount rate of 6.15% (2004 – 6.34%). The discount rate is based on the average yield to maturity on the fund assets, calculated at amortized cost. The average yield to maturity on the fund assets at market value, however, is 4.94% (2004 – 5.08%).

For mortality, this valuation and the previous valuation both used 80% of the 1983 Group Annuity Mortality Table mortality rates. This is the same mortality table used to determine the annuity at the time of purchase.

The annual change in the annuities payable is reflected in the statement of operations and net assets (deficit). The principal components of change during the year were as follows:

	(in thousands of dollars) 2005	2004
Accumulated provision for annuities payable, beginning of year	$126,420	$117,141
Interest on annuities payable	8,010	7,410
New annuities purchased in the year	16,080	11,240
Annuities paid	(11,913)	(10,833)
Change in future administration costs	298	22
Experience loss	22	410
Change in assumed discount rate	2,006	1,030
Accumulated provision for annuities payable, end of year	$140,923	$126,420

The accumulated provision for annuities would be approximately $157 million (2004 - $141 million) if a 4.94% (2004 – 5.08%) discount rate is used.

Based on past history, an explicit allowance for expenses of 2.10% (2004 - 2.10%) of future annuity payments is included in the total provision.

The actual rates may vary significantly from the assumptions used. It is reasonably possible, based on existing assumptions, that changes in future conditions in the near term could require a material change in the annuities payable. A 1% increase in the interest rate decreases the liability $11.2 million (2004 - $10.0 million) and a 1% decrease in the interest rate increases the liability $13.1 million (2004 - $11.7 million).

6. Fair Value of Financial Assets and Financial Liabilities

The following method and assumptions were used to estimate the fair value of each class of financial assets and financial liabilities:

Fair values of investments are considered to be market values (Note 3).

For the following financial assets and liabilities the carrying amounts approximate fair value due to the immediate or short-term nature:

a) Accrued investment income
b) Members' contributions receivable
c) Due from General Revenue Fund
d) Bank indebtedness
e) Administration expenses payable

The actuarial present value of the annuity benefit obligations is long-term in nature and there is no ready market for settling this obligation. Therefore, determination of the fair value is not practical.

7. Administration Expenses

	(in thousands of dollars) 2005		2004	
	Budget	Actual	Budget	Actual
Administration costs – PEBA	$100	$128	$114	$ 88
Custodial fees - Royal Trust	9	9	11	8
Investment management fees - Greystone Capital Management Inc.	112	111	84	102
	$221	$248	$209	$198

8. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since all are controlled by the Government. Also, the Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences. These financial statements include expenses associated with administering the Fund and are paid to the PEBA Revolving Fund. Related party transactions with the Fund are in the normal course of operations and are recorded at exchange amounts agreed to by the parties to the transactions.

At March 31, 2005, the total cost of Province of Saskatchewan bonds and debentures held by the Fund was $3,868,000 (2004 - $4,118,000). Net unamortized discounts amounted to $410,281 (2004 - $436,449). Investment income of $231,161 (2004 - $241,760) was earned on the Province of Saskatchewan bonds and debentures.

At year end, the Fund has an accounts payable due to the PEBA Revolving Fund of $2,526 (2004 - $4,132).

Other transactions with related parties and amounts due to or from them are described separately in the financial statements and notes.